Rossendale
BOROUGH COUNCIL

ITEM NO. D1

Subject:	Financial Monitoring Out-turn Report 2017/18		**Status:**	For Publication	
Report to:	Cabinet		**Date:**	4th July 2018	
Report of:	Finance Manager		**Portfolio Holder:**	Portfolio Holder for Resources	
Key Decision:	☐	Forward Plan ☒	General Exception ☐	Special Urgency ☐	
Equality Impact Assessment:	Required:	~~Yes~~/No	Attached:	~~Yes~~/No	
Biodiversity Impact Assessment	Required:	~~Yes~~/No	Attached:	~~Yes~~/No	
Contact Officer:	Janice Crawford		**Telephone:**	**01706 252416**	
Email:	**janicecrawford@rossendalebc.gov.uk**				

1.	RECOMMENDATION(S)
1.1	That Members note the contents of the report.

2. PURPOSE OF REPORT

2.1 The purpose of the report is to update Members on the financial performance in the first six months of the year compared to the original budget set back in February.

3. CORPORATE PRIORITIES

3.1 The matters discussed in this report impact directly on the following corporate priorities:

- **A clean and green Rossendale:** our priority is to keep Rossendale clean and green for all of Rossendale's residents and visitors, and to take available opportunities to recycle and use energy from renewable sources more efficiently.
- **A connected and successful Rossendale that welcomes sustainable growth:** our priority is to ensure that we are well connected to our residents, key partners and stakeholders. We want to make the most of every pound we spend and we are always looking for new and innovative ways to make the resources we do have, work harder for us.
- **A proud, healthy and vibrant Rossendale:** our priority is to ensure that we are creating and maintaining a healthy and vibrant place for people to live and visit.

4. RISK ASSESSMENT IMPLICATIONS

4.1 All the issues raised and the recommendation(s) in this report involve risk considerations as set out below:

- Financial monitoring of General Fund service departments focuses on the key risk areas of employee costs, income, implementation of agreed budget savings, emerging issues and opportunities and in particular service department net expenditure.
- Budget setting for future years is now treated as an integral part of financial monitoring during the current year and the impact of variances being reported here will be assessed when officers are considering the detailed 2019/20 budgets in the coming months.
- Progress in identifying and implementing further savings to meet the challenges in the Medium Term Financial Strategy (MTFS) have been reflected in the 2018/19 budget working papers.
- The Council must explore ways of bridging its forecast £1m funding gap. Amongst other things this may include becoming more commercially aware, aiming to grow its resources alongside the challenges to its cost base.
- Any continued austerity planning by Central Government resulting in a further

reduction of central government resources, plans for the local retention of 75% of the business rates by 2020/21, the current fair funding review and any potential implications of Brexit.

5. BACKGROUND AND OPTIONS

5.1 2017/18 Draft Out-turn as at the end of April 2018 (see Appendix 1)

This draft out-turn report, covering actual activity during the full financial year 2017/18, is showing an expected favourable variance of £270k, subject to external audit. The most notable changes throughout the year are shown in the table on page 5 of the report. The main changes from the £192k favourable variance forecast back in December are shown below:

5.1.1 Favourable one-off variances

- Housing subsidy grant out-turn was £76k better than anticipated in previous quarters, though the final claim was still an adverse £47k for the year.
- The corporate contingency of £76k ended the year with a favourable variance of £35k, the main uses being to support the sale of the shares in the Transport Company, as shown on page 15.
- Refurbishment of Kay Street buildings added a further £21k to costs in 2017/18, but this should be recovered from rental incomes in the next two years, as noted on page 17.

5.1.2 Adverse one-off variances

- Custom Build Register Grants of £45k within planning, as reported in Q3, have been carried forwards to the coming year to meet the anticipated related costs.
- Software supporting the intelligent scanning of invoices into the financial systems has become obsolete and incompatible with the latest operating system introduced in 2017/18. The upgrade of this software has had a one-off cost of £13k
- The savings from the 3-year pension fund prepayment in April 2017 have been apportioned differently over the 3 years by the actuarial consultants, resulting in £40k lower savings in 2017/18 (£74k rather than £114k), but higher savings in the following 2 years.

5.1.3 Favourable recurring variances which will impact upon the MTFS

- Recovery of court costs awarded for the collection of Council Tax and Business Rates has increased again in Q4, bringing the annual favourable variance to almost £75k.
- Income from cemeteries, planning fees and building control fees have all increased in Q4, resulting in a combined £97k favourable variance. However, at the same time Licensing income fell for the fourth quarter in a row to end the year at £207k under the original budget.
- Interest income in Q4 was above the original budget due to cash receipts from the sale of the Transport company shares and some improvement in interest rates following the base rate increase in November 2017, as noted on page 25 of the report.

5.1.4 Adverse recurring variances which will impact upon the MTFS

- An increase in the levels of contaminates and a drop in the market rates for recyclates, has resulted in an adverse variance of £52k.

5.2 **Earmarked Reserves**

The total cash-backed Earmarked Reserves brought forward at 1st April 2017 were £6,228k (excluding the Transport Reserve).

In Q1 officers recommended the allocation of the first £20k of surplus in 2017/18 to balance the Directorate Investment Reserve, and that the remaining savings should be transferred back into the Transitional Budgetary Reserve. A draft favourable variance of £270k will mean that the anticipated balance in the Transitional Budgetary Reserve at the end of 2017/18 will be £2,718k. Members will recall that the MTFS back in February 2018 showed future requirements of £1m per annum to support future financial years. Therefore, this reserve will still be exhausted during 2020/21.

The Business Rates Retention Reserve now reflects the in-year variances discussed in detail on page 32, including the renewable energy income of £159k and S31 grants of £801k for the year. The original budget for 2017/18 included the use of £700k from this reserve. Officers believe that the current level of variances will be continuing into the future, potentially allowing a £200k increase in the annual contribution towards the Council's revenue costs. (see paragraph 5.10 below.

The Planning Reserve has ended the year at £194k but this is expected to be called upon to support costs of the Local Plan over the next two years.

The forecast closing balance at the 31st March 2018 is now £5,295k, but planned usage of the Transitional Reserve through the life of the MTFS will reduce this to £2,036k by March 2021.

5.3 **Government Grants**

The opening value of Government Grants Unapplied at the 1st April 2017 was £591k. The DFG grant for 2017/18 was £869k, leading to total funds available in 2017/18 of £1,261k. Following slow referrals from the LCC Occupational Health team, officers have only managed to complete around £556k of adaptations in 2017/18, resulting in a carry forward of around £705k into 2018/19. A further £947k of grant will be received in 2018/19, giving total resources of £1,652k in the coming year.

The Homelessness grant of £82k is the balance of funding received by Rossendale as administrator of the young persons homelessness grant. Payments of £14k were released to approved parties during 2017/18, with the balance expected to be determined in the coming year.

The Transforming Lives and Hoarding Grants are joint projects with the PCC to tackle problems early and the balance of these funds are expected to be spent during 2018/19

With the carry forward of DFGs, the forecast balance at March 2018 has now risen to £886k.

5.4 **Staff Monitoring**

Members will recall that the original budget set a vacancy savings target of £150k. The table on page 4 of the attached report shows that the year has ended at £128k, an adverse variance of £22k, with Health, Housing and Regeneration as the main contributors. This is likely to be a potential pressure in the MTFS in the years ahead.

5.5 **Treasury and Cash Management**

As the tables on page 25 show, the bank balances this year have been around £2m less than expected until the sale of the Transport company shares in January 2018. This has been the combined result of the following strategic activities

- the £4.6m pre-payment of pensions costs,
- the receipt of the £3.4m LCC Spinning Point contribution, to be spent in 2018/19
- payment of Spinning Point demolition costs,
- payment of £770k of flood resilience grants ahead of reimbursement from central government.

Interest rates on the Council's bank accounts rose marginally in Q4, following the November 2017 increase in the bank base rate from 0.25% to 0.5%. The average effective rate being earned at the end of March 2018 was 0.47%, up from 0.35% at Q3, but still below the target of base rate + 0.15%. The best short-term interest being earned is from the Lloyds, with 0.85% being earned on the 12-month deposit of £1.5m and 0.57% being earned on the £3.5m in the 32-day notice account. Officers are now limiting the use of Lloyds accounts to £6m at any one time, being 50% of the average funds available, in line with the Treasury Management Strategy approved back in February.

The balance in the NatWest accounts hovered at around £7m for one week in January when the sale receipts from the Transport Company shares came in. The issue was resolved by the transfer of £3m into the Lloyds 32-day notice account.

Resources ended the year at £8.6m and the table on page 26 of the report shows how this is expected to impact upon the Council's cash flows over the life of the MTFS. By the end of 2019/20 resources could be around £5.9m, but a further 3-year pre-payment of the pension fund costs in April 2020 would bring resources closer to £3.1m.

5.6 **Debt Monitoring**

New debts raised in 2017/18 totalled £4,268k. At the end of the year £633k of debts was outstanding, 58% of this was under one month old and 18% was over 1 year old. That means that of the invoices raised between April 2017 and February 2018, 96% had been collected within the year.

Following the focus on collecting debt wherever possible, officers have identified that £86k of the debts outstanding are potentially doubtful, excluding £250k due from other authorities and £53k due from contract partners. The provision for doubtful debts began the year at £97k, of which £26k was used to write off old debts back in Q1. Following some minor write-offs in Q4 and a further provision of £20k, as planned in Q2, the provision at the year-end was £87k. However at least £34k of the older outstanding debt is recorded on the Local Land Charges Register, so the cash should come in to the Council eventually.

5.7 **Capital Resources and the Capital Programme**

The table on page 28 shows a breakdown of the £3,836k of capital receipts from the sale of assets in 2017/18, £3,360k of that being the net consideration from the sale of the Transport Company shares in Q4.

The Capital Programme approved back in February 2017 was £885k, principally £500k of DFGs, £130k of CPOs, £135k of building maintenance works and £130k of operational spend on parks, playing fields and vehicles.

At the end of 2016/17 there was £8,873k committed to ongoing capital projects, known as slippage. These projects included £5,241k for Spinning Point Phase 1, £1,601k for the ongoing Bacup THI scheme and £391k balance of DFG grants and a full list is shown on page 29 of the attached report. Of the £1,762k capital receipts brought forward at 1st April, £635k was already committed to funding these slippage projects.

During 2017/18 a further £866k wad been added to the programme, mainly in community-led projects to improve open spaces and play areas. The sale of the Transport Company also saw the transfer to the Council of the property on Knowsley Road at a value of £2.3m, bringing the total capital programme for the year up to £12,944k.

The table on page 29 shows that £7,489k of that programme has slipped forwards into 2018/19, including £4,442k for the remainder of the Spinning Point project, £874k balance on the Bacup THI scheme and £705k of Disabled Facilities Grants. External grants and contributions will be funding £6,499k of this slippage, with £649k coming from capital receipts and £107k coming from S106 monies or other revenue reserves and £234k due to come from internal borrowing.

Though the Council's capital resources, including external capital grants received in advance, are expected to end the year at £6,890k, only £1,646k of this has not already been allocated to specific capital projects.

5.8 **Minimum Revenue Provision**

Given delays in replacing some operational vehicles & equipment, the total one-off savings on MRP costs for 2017/18 have been £154k. Much of this has been used to offset the rising costs of vehicle maintenance, as noted on page 8 of the report.

Members are reminded that page 30 of the attached report explains that the net £20k adverse variance in Leisure investment MRP is more than repaid by Rossendale Leisure Trust Ltd under the arrangements put in place in November 2016 for the Haslingden Sports Centre equipment re-purchase.

5.9 **Section 106 Agreements**

The tables on page 30 of Appendix 1 show the current S106 agreements in force which are available for Rossendale Council projects, with the balance of funds and any deadline dates.

At the moment there is £142k available for revenue projects, principally from the Douglas Rd/ Tong Lane development which has no time limit specified in the agreement, from which £10k is being transferred to the revenue account each year to support grounds maintenance costs.

There is also £193k for capital projects, including agreements from developments at Cowm Park Way, Holmefield House and Mytholme House. Members and officers are currently considering options for funding the Stubbylee Dell project, one option being the application of the remaining £14k from the Cloughfold development.

5.10 **Collection Fund**

The collection rates for council tax and business rate have ended the year above the 2016/17 levels, with business rates reaching the highest levels for over 4 years. With a strong focus on collecting funds promptly, there has also been an increase in court cost recharges, leading to the favourable variance of £75k on page 5 of Appendix 1.

The current projection for the overall council tax collection fund is a surplus of £417k, a drop of £155k since Q3, of which this Council will keep £63k. Rossendale keeps just over 15% of the total surplus, with the majority going to Lancashire County Council.

Under the new business rates scheme, variances from the original budgets fall into two categories – those arising from changes to the collection fund and those arising from grants and levies received or charged to the General Fund. Changes to the Collection Fund have ended the year at £502k, up from £208k at Q3, following two year-end decisions

- Officers calculated that no increase was required in the doubtful debt provision, given the level of in-year collections and results in collecting past-year debts during 2017/18.
- By the end of the year the Valuation Office had concluded several large appeal determinations, reducing the borough's net rateable value by £510k in the process. However, this was less than the potential already provided for in the appeals provision, hence officers determined that no further provision was required at the end of 2017/18.

The second area of variance occurs in the revenue accounts, based upon the entitlement for this Council year-on-year, renewable energy income and the S31 grants made available to cover central government relief decisions. In early January officers have been notified that the tariff for 2017/18 has been revised downwards to £2,534k, a favourable variance of £82k. Officers have calculated the S31 grants due for the year at £801k, which in the past would have meant that Rossendale would have paid over £518k to central government. The Lancashire pooling arrangement will allow the retention of this money, less a 10% share going to LCC through the pool.

Therefore, the table at the foot of page 32 shows the overall gain on business rates for 2017/18 was £1,191k, compared to the MTFS target of £800k, which bodes well for the MTFS. All things being equal, a prudent estimate would be to anticipate a additional £200k on-going annual surplus from the Council's share of NNDR.

5.11 **Sale of Rossendale Transport Ltd**

When the Q3 report was being drawn together the Council was in the process of concluding the sale of Rossendale Transport Ltd, as decided by Members at Full Council on the 20th December 2017.

The full impacts of this sale have now been incorporated within this out-turn report, including the net consideration of £3,360k, the impact that had upon the treasury management out-turn, and the transfer of the £2.3m building on Knowsley Road.

The depot represents an opportunity to attract a large business to the area and has been included in the MTFS as having the potential to earn a net income of £150k per annum. Officers have been exploring this potential in the past few weeks and have begun to conclude that a business of the size requiring such a building as the depot is unlikely to lease, preferring the certainty of tenure and the capital growth that comes with ownership. Consequently, retaining the depot may not be considered the best use of Council assets. In contrast, disposal of this asset could bring a new business into the borough with the associated jobs and economic development as well as generating a significant capital receipt.

Officers will continue to explore and assess both lease and disposal options and report back to Members as soon as possible.

COMMENTS FROM STATUTORY OFFICERS:

6. SECTION 151 OFFICER

6.1 Financial matters are noted in the report attached.

7. MONITORING OFFICER

7.1 Unless specifically commented upon within the report, there are no specific implications for consideration.

8. POLICY IMPLICATIONS AND CONSULTATION CARRIED OUT

8.1 Unless specifically commented upon within the report, there are no implications for consideration. Staffing issues have been discussed with colleagues in the People & Policy section.

9. CONCLUSION

9.1 Robust monitoring of the General Fund and MTFS is essential to control risks expressed in section 4 above.

9.2 Despite a continued cost reduction programme, the challenge remains for Council to continue its efficiency agenda in order to realise its medium term saving target. Members, collectively, continue to face difficult choices in order to balance expenditure with available resources over the medium term, especially in light of the wind farms adverse decision.

9.3 Council should not get complacent following this 2017/18 favourable variance, but remember the forthcoming significant reductions in income: Rate Support Grant, waste cost share and renewable energy. 2018/19 will see the use of £800k of reserves in order to balance costs and income. Such a strategy is not sustainable in the long term.

Background Papers	
Document	Place of Inspection
Service monitoring statements.	Financial Services.
Full Council decision 20th December 2017	https://www.rossendale.gov.uk/meetings/meeting/1063/council
2017/18 Corporate Priorities, Budget, Council Tax and The Medium Term Financial Strategy.	RBC website - Full Council 1/03/2017